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THE JOB

15. ~~RURAL ELECTRIFICATION ADMINISTRATION~~
U. S. DEPARTMENT OF AGRICULTURE *11*

Rural electric and telephone service, furnished by locally owned cooperatives with the aid of REA financing, have opened the way to more efficient farming, better living, and new economic opportunity for rural Americans.

Before 1935, rural America was a dark land. Only one farm in ten had electric service, and the power company rates and construction charges were too high for most families. When President Franklin Delano Roosevelt created the Rural Electrification Administration, most power suppliers still regarded electric service in the thinly populated countryside as both unprofitable and impractical.

In 1936, Congress passed the Rural Electrification Act, turning to cooperatives to tackle the job that the power companies had by-passed. The Act authorizes long-term, low-interest REA loans for electric facilities to serve farm families and other rural consumers. The Act was amended in 1949 to authorize similar loans to improve and extend telephone service in rural areas. In 1949, only 38 percent of America's farms had any kind of telephone service.

Of 1,000 electric borrowers presently using REA funds, 935 are consumer-owned rural electric cooperatives. And 222 of 838 REA's telephone borrowers are subscriber-owned cooperatives. These cooperatives combine individual initiative and local control with government financing and technical assistance in engineering, accounting, and management improvement -- a partnership which has increased agricultural production and improved rural communities.

Rural electric cooperatives now serve more than 5 million farm families and other rural consumers.

Members have doubled their use of electric power in the last decade. During this same period, REA borrowers lowered the average price of electricity to their consumers from 3.22 cents per kilowatt-hour in 1953 to 2.33 cents per kwh in 1963. Rate reductions amounting to an annual savings of \$2.5 million were made by 111 REA-financed electric cooperatives in the last fiscal year alone.

An electric or telephone cooperative is an independent, locally owned business enterprise, incorporated under laws of the state in which it operates. With few exceptions, the electric consumers or telephone subscribers served by each cooperative are members, who share ownership of the system and have a voice in its operation. Each member has one vote in the election of the board of directors and in any other decisions brought before the annual meeting of the organization. A manager is hired to run the business for the board and members.

The cooperatives set the rate for electric energy or telephone service high enough to cover the cost of providing service plus an amount to meet payments on REA loans, plus a small margin to assure sufficient operating capital and reserves. Operating margins are returned to consumers and subscribers in the form of rate reductions or are credited to individual member accounts as paid-in capital.

- Non-profit operation, together with the 2 percent rate of interest on REA loans and REA's technical assistance to borrowers, are equalizers which help to compensate for the handicaps which have to be overcome by the rural systems. The cooperatives are located in sparsely settled rural areas. They average only 3.3 consumers per mile of line, with some serving fewer than one

to the mile (Commercial power companies average 33.2 consumers to the mile.) The REA borrowers average only \$460 in annual revenue per mile of line. (Commercial power companies average \$7,164.)

The REA financed systems generate about 1 percent of the electric power produced in the U. S. While they serve only about 8 percent of all U. S. electric consumers, they have built and put into operation more than half of all the electric distribution lines in the country.

Since its creation in 1935, REA has made electric loans amounting to \$5.2 billion. About \$4.5 billion of this already has been advanced for system construction and other loan purposes. The borrowers are repaying their loans on schedule and even ahead of schedule: \$1.1 billion in principal, \$600 million in interest, and \$200 million in payments ahead of schedule. Only one borrower is behind in its payments, by \$91,000.

Telephone cooperatives since 1949 have borrowed \$378 million to provide modern dial service for more than half a million subscriber-members. Their payments to the U. S. Treasury in loan principal and interest amount to \$62 million in this newer REA lending program.

Basically, the objective of REA and the cooperatives continues to be how to get the blessings of electrification and telephone service to rural people -- newcomers as well as long-time residents -- at rates and on terms that are comparable to those enjoyed by city people. This is an economic as well as a social mission which is vital to the proper development of this Nation's rural areas. REA and the cooperatives are carrying out the responsibility that no one else wanted, and they are doing an excellent job of it,



